

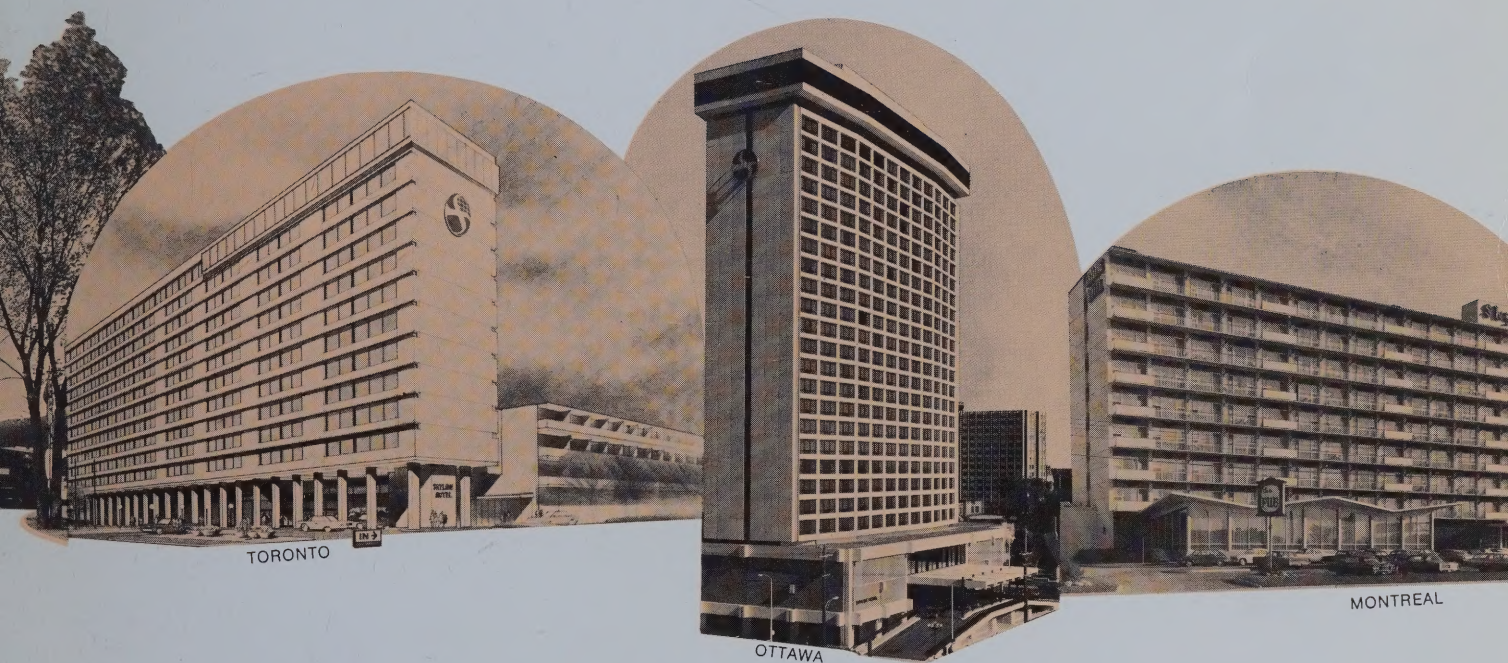


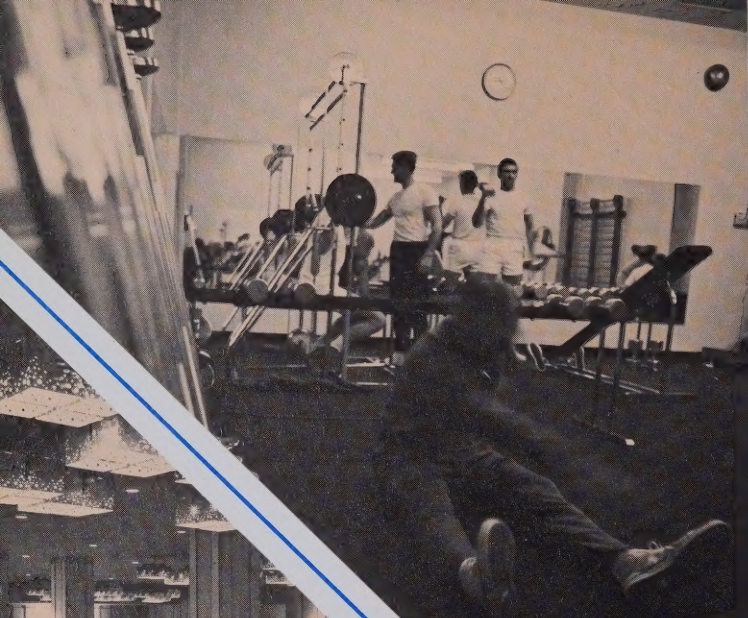
Comp.

SKYLINE HOTELS LIMITED

Annual Report 1970

AR21



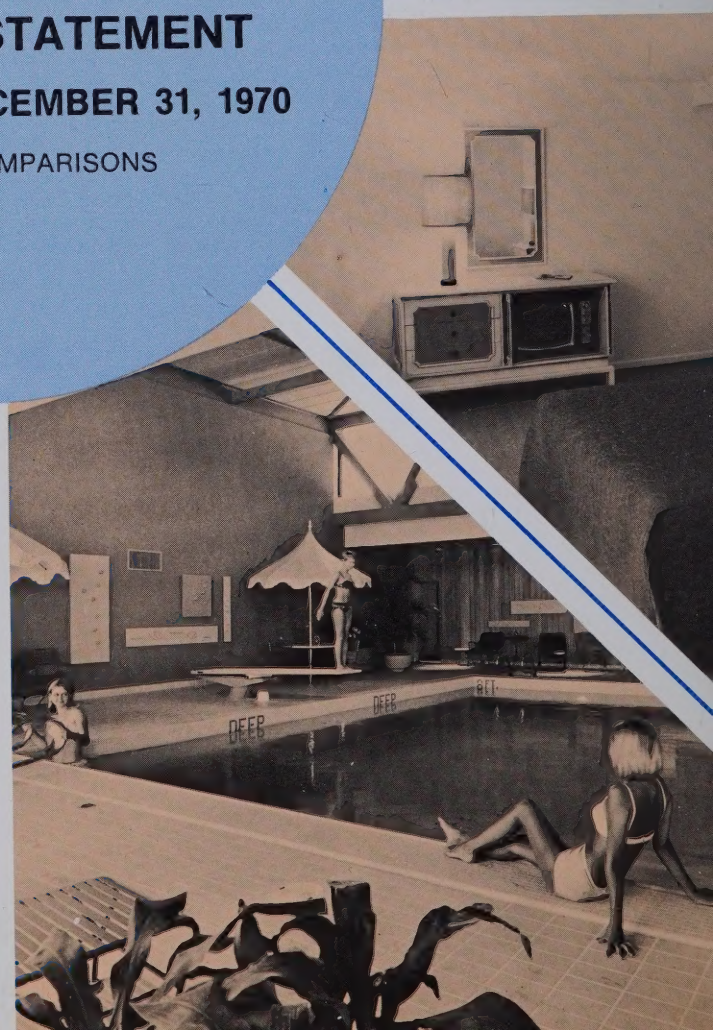


SKYLINE HOTELS LIMITED
and subsidiaries

**CONSOLIDATED
FINANCIAL STATEMENT**

YEAR ENDED DECEMBER 31, 1970

WITH 1969 COMPARISONS



SKYLINE HOTELS LIMITED

and subsidiaries

ANNUAL REPORT 1970

DIRECTORS

William R. Hodgson	Kenneth C. Dutton
Charles A. McKechnie	Frank F. Hull
Joseph Sedgwick Q.C.	John B. Hamilton Q.C.

Frederick H. Daniels

OFFICERS

William R. Hodgson <i>President and Chief Executive Officer</i>	
Charles A. McKechnie <i>Vice President</i>	Robert S. McCaffrey C.A. <i>Secretary Treasurer</i>
Kenneth C. Dutton <i>Managing Director Skyline Hotels (London) Limited</i>	William A. Sindall <i>President Skyline International Limited</i>
Frank F. Hull <i>Financial Consultant</i>	
Rudy C. Prins <i>Chief General Manager</i>	Dennis E. Grimm <i>Director of Sales</i>
Albert W. Linington <i>Director of Purchasing</i>	Elwin C. Moore <i>Executive Assistant to the President</i>
Mervyn M. Hammond <i>Special Project Manager</i>	Harry M. Bailey <i>General Manager</i>
Nelson E. Verge <i>General Manager</i>	Gordon E. Clayton <i>General Manager</i>

CONTENTS

	Page
Financial Highlights - - - - -	1
President's Message - - - - -	2
Consolidated Balance Sheet - - - - -	3-4
Auditors' Report to the Shareholders - - - - -	3-4
Consolidated Statement of Contributed Surplus - - - - -	5
Consolidated Statement of Retained Earnings - - - - -	5
Consolidated Statement of Earnings - - - - -	6
Consolidated Statement of Source and Application of Funds - - - - -	7
Notes to Consolidated Financial Statements - - - - -	8-11

Skyline Hotels Limited and Subsidiaries
Financial Highlights
Year Ended December 31

	1970	1969	% Increase
Gross revenue	\$16,199,508	\$14,064,467	+15%
Earnings after current income taxes payable	\$ 891,881	\$ 597,628	+49%
Per share80¢	.53¢	+49%
Net earnings	\$ 442,624	\$ 300,165*	+47%
Per share40¢	.27¢	+47%
Cash flow from operations	\$ 1,698,264	\$ 1,241,245	+37%
Per share	\$ 1.52	\$ 1.11	+37%
Number of shares outstanding	1,120,000	1,120,000	

(* — 1969 net earnings are shown after pro-forma provision for deferred income taxes)



A Message from the President

I am once again very pleased and proud to report to you the accomplishments of our Company over the past year. You will note that we have increased our profit by 49%. This makes it the third consecutive year of a substantial increase; in fact, earnings (after current income taxes payable) in 1968 of \$61,311.00 rose to \$597,628.00 in 1969, and in 1970 to \$891,881.00. Our sales have increased from \$12,835,002.00 in 1968 to \$14,064,467.00 in 1969, and to \$16,199,508.00 in 1970. Per share earnings (after current income taxes payable) have risen over the same period from 8¢ to 53¢ to 80¢ per share. Equally so, the cash flow has gone from \$643,795.00 to \$1,241,245.00 to \$1,698,264.00.

It is my opinion that our Company has established a reputation as a major prestige Canadian Hotel Chain, of which I am extremely proud. I further feel a great deal of the credit for the accomplishments, both financially and reputation-wise, must go to the staff of all our Hotels. Their loyalty and productivity have accomplished these results.

Our outlook for 1971 is very optimistic. The first quarter has again shown an increase over last year, and I will be reporting these results to you in the very near future. The year of 1971 is one of growth for our Company. The expansion taking place during this year will, in my opinion, have a very substantial affect on our future profits. The Skyline Hotel, London, England, located at Heathrow (London Airport), will open in October of this year, and the reception that we have already received from the airlines and industry, makes me feel quite confident that this will immediately upon completion be a great asset to us. The Toronto Hotel expansion is well under way. As you are aware, this consists of two first-run movie theatres, leased to 20th Century Theatres, a subsidiary of Famous Players, 17 shops, other dining facilities and possibly the most important of all, the largest hotel convention ballroom in Canada. This project will also be completed in October of 1971.

Management recently has retired its first mortgage bonds and has now put itself in a position, and is under active negotiations, to complete a major long-term financing programme in a much more palatable money market. This new financing will replace all existing long-term debt, including the term loans arranged to cover the expansion outlined above.

I want to thank you for your continued support and confidence, and I assure you, as your Chief Executive Officer, that it is my intention to see that Skyline will continue to grow and prosper in a sound and orderly fashion.

I remain,

W. R. Hodgson,
President.

Skyline Hotels Limited and Subsidiaries
Consolidated Balance Sheet
December 31, 1970 with 1969 Comparisons

Assets

CURRENT ASSETS	1970	1969
Cash	\$ 21,522	\$ 20,122
Accounts receivable	988,450	875,850
Inventories — at cost	340,920	345,602
Funds on deposit	758,572	883,305
Prepaid expenses and sundry assets	258,041	208,778
	<u>\$ 2,367,505</u>	<u>\$ 2,333,657</u>
FIXED ASSETS (note 2)	<u>\$14,262,612</u>	<u>\$12,743,840</u>
OTHER ASSETS		
Unamortized financing costs	\$ 145,715	\$ 127,416
Hotel opening and establishment costs (after amortization of \$239,475) (note 8)	345,085	372,485
Preliminary costs re Jamaica project (note 3)	158,698	24,597
Organization expenses	34,339	7,839
Share issue costs	—	70,284
Goodwill on consolidation (note 9 (a))	82,160	82,160
	<u>\$ 765,997</u>	<u>\$ 684,781</u>
Total assets	<u><u>\$17,396,114</u></u>	<u><u>\$15,762,278</u></u>

Approved on behalf of the board :

(Signed) W. R. Hodgson, Director

(Signed) C. A. McKechnie, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Skyline Hotels Limited and subsidiaries as at December 31, 1970 and the consolidated statements of earnings, contributed surplus, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Skyline Hotels Limited and one subsidiary of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

Skyline Hotels Limited and Subsidiaries
Consolidated Balance Sheet
December 31, 1970 with 1969 Comparisons

Liabilities

CURRENT LIABILITIES	1970	1969
Bank indebtedness (note 4)	\$ 366,692	\$ 157,288
Accounts payable — trade	1,527,702	1,454,079
— construction	—	769,324
Income taxes payable (note 9 (b))	4,263	3,974
Dividend payable	112,000	—
Long-term debt due within one year	543,900	492,500
	<hr/>	<hr/>
	\$ 2,554,557	\$ 2,877,165
LONG-TERM DEBT (note 5)	9,654,322	8,554,852
DEFERRED INCOME TAXES (note 9 (a))	445,137	(4,120)
	<hr/>	<hr/>
Total liabilities	\$12,654,016	\$11,427,897
	<hr/>	<hr/>
MINORITY INTEREST IN SUBSIDIARY	\$ 38,166	\$ —
	<hr/>	<hr/>

Shareholders' Equity

CAPITAL STOCK (note 6)	\$ 2,752,030	\$ 2,752,030
CONTRIBUTED SURPLUS	114,316	—
RETAINED EARNINGS	1,837,586	1,582,351
	<hr/>	<hr/>
	\$ 4,703,932	\$ 4,334,381
	<hr/>	<hr/>
	\$17,396,114	\$15,762,278
	<hr/>	<hr/>

The accompanying notes form an integral part of these consolidated financial statements.

In our opinion these financial statements present fairly the financial position of the Companies at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change to the tax allocation basis of accounting for income taxes as explained in note 9 (a) to the financial statements, have been applied on a basis consistent with that of the preceding year.

(Signed) PERLMUTTER, ORENSTEIN, GIDDENS, NEWMAN & CO.

Toronto, April 15, 1971

Chartered Accountants

Skyline Hotels Limited and Subsidiaries
Consolidated Statement of Contributed Surplus
Year Ended December 31, 1970

	1970	1969
BALANCE — January 1	\$ —	\$ —
ADD — Premium on issue of common shares of subsidiary (less minority interest)	114,316	—
BALANCE — December 31	<u>\$ 114,316</u>	<u>\$ —</u>

Skyline Hotels Limited and Subsidiaries
Consolidated Statement of Retained Earnings
Year Ended December 31, 1970 with 1969 Comparisons

	1970	1969
BALANCE — January 1, As previously reported	\$ 1,586,325	\$ 984,723
Adjustment of prior year's income taxes of subsidiary (note 9 (b))	3,974	—
As restated	\$ 1,582,351	\$ 984,723
ADD — Net earnings for the year	442,624	597,628
DEDUCT — Dividend	(112,000)	—
— Share issue costs written off	(75,389)	—
BALANCE — December 31,	<u>\$ 1,837,586</u>	<u>\$ 1,582,351</u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited and Subsidiaries
Consolidated Statement of Earnings
Year Ended December 31, 1970 with 1969 Comparisons

	1970	1969	
		Pro-forma (note 9 (a))	Actual
Revenue	<u>\$16,199,508</u>	\$14,064,467	\$14,064,467
Cost of sales and operating expenses	<u>13,720,020</u>	<u>12,355,493</u>	<u>12,355,493</u>
Earnings before the undernoted items	\$ 2,479,488	\$ 1,708,974	\$ 1,708,974
Interest income	<u>98,559</u>	<u>112,668</u>	<u>112,668</u>
	<u>\$ 2,578,047</u>	<u>\$ 1,821,642</u>	<u>\$ 1,821,642</u>
Interest on long-term debt	\$ 865,365	\$ 565,058	\$ 565,058
Other interest	<u>45,612</u>	<u>32,970</u>	<u>32,970</u>
Depreciation and amortization (note 8)	<u>774,900</u>	<u>622,012</u>	<u>622,012</u>
	<u>\$ 1,685,877</u>	<u>\$ 1,220,040</u>	<u>\$ 1,220,040</u>
Earnings before income taxes	\$ 892,170	\$ 601,602	\$ 601,602
Income taxes payable (note 9 (b))	<u>289</u>	<u>3,974</u>	<u>3,974</u>
Earnings after current income taxes payable	\$ 891,881	\$ 597,628	\$ 597,628
Deferred income taxes (note 9 (a))	<u>449,257</u>	<u>297,463</u>	<u>—</u>
Net earnings	<u>\$ <u>442,624</u></u>	<u>\$ 300,165</u>	<u>\$ 597,628</u>
SUMMARY			
Net earnings (after deferred income taxes)	<u>\$ 442,624</u>	<u>\$ 300,165</u>	<u>\$ 597,628</u>
Per share	<u>40¢</u>	<u>27¢</u>	<u>53¢</u>
Earnings after current income taxes payable	<u>\$ 891,881</u>	<u>\$ 597,628</u>	<u>\$ 597,628</u>
Per share	<u>80¢</u>	<u>53¢</u>	<u>53¢</u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited and Subsidiaries
Consolidated Statement of Source and Application of Funds
Year Ended December 31, 1970 with 1969 Comparisons

SOURCE OF FUNDS	1970	1969
Net earnings for the year	\$ 442,624	\$ 597,628
Add — Charges not requiring outlay of funds		
Depreciation and amortization	774,900	622,012
Amortization of financing costs	31,483	21,605
Deferred income taxes	449,257	—
Funds from operations	\$ 1,698,264	\$ 1,241,245
(Per share — \$1.52; 1969 — \$1.11)		
Proceeds of issue of long-term debt	1,629,436	4,672,268
Proceeds of subsidiary share issue to minority interest	152,482	—
Special refundable tax	—	10,729
	<u>\$ 3,480,182</u>	<u>\$ 5,924,242</u>
APPLICATION OF FUNDS		
Fixed asset additions (net)	\$ 2,240,746	\$ 4,730,884
Long-term debt repayments		
Normal amortization	528,349	362,110
Refinancing	—	1,425,188
Dividend on common shares	112,000	—
Hotel opening and establishment costs	25,525	35,370
Preliminary costs re Jamaica project	134,101	24,597
Share issue costs	5,105	1,021
Organization expenses	26,500	400
	<u>\$ 3,072,326</u>	<u>\$ 6,579,570</u>
INCREASE (DECREASE) IN WORKING CAPITAL (exclusive of changes in long-term debt due within one year)	<u>\$ 407,856</u>	<u>\$ (655,328)</u>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1970

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of inter-company transactions. The amount of net current assets in countries with exchange restrictions is approximately \$52,500.

2. FIXED ASSETS	Cost	Accumulated depreciation	Net
Land	\$ 156,046	\$ —	\$ 156,046
Paving	170,233	37,582	132,651
Buildings	8,634,844	899,058	7,735,786
Leasehold improvements	1,101,714	215,608	886,106
Equipment	5,623,308	2,327,109	3,296,199
Projects under development .. (see below)	1,585,557	—	1,585,557
	<u>\$17,271,702</u>	<u>\$3,479,357</u>	<u>\$13,792,345</u>
Tablewear, linen and uniforms			470,267
			<u>\$14,262,612</u>

Projects under development include :

(i) London, England

Skyline Hotels (London) Limited, a 75%-owned subsidiary, has acquired an underlease for 56 years to a site near Heathrow Airport and has accepted the assignment by the previous under-lessee of the construction contract for the 360 room hotel being constructed on this site. By agreement, the head lessee is obliged to pay \$7,300,000 of the cost of constructing the hotel. Construction is due for completion in October, 1971.

(ii) Toronto

The Company is constructing and furnishing an addition to its Toronto hotel with completion expected in October, 1971.

3. JAMAICA PROJECT

A subsidiary in 1969 had agreed, subject to the fulfillment of certain conditions, to build and equip a hotel in Jamaica for a fixed price, and upon completion to lease the hotel from the owner for 25 years. Certain covenants and conditions in the agreement were not fulfilled, and the project has been temporarily postponed while negotiations are being carried on to change the basis of the project.

4. ASSETS PLEDGED

The Company's bank indebtedness is collaterally secured by a general assignment of book debts, and until repayment of the bank term loans referred to in note 5 (c) is additionally secured by the security detailed in sub-paragraph (i) thereof.

5. LONG-TERM DEBT

a) Long-term debt consists of:	1970	1969
9% first mortgage bonds (repaid in 1971)	\$ 3,930,174	\$ 4,000,000
Debenture, 9.98%, due 1973 (secured)	3,136,688	3,249,698
Bank term loans (secured), due 1973 (\$1,000,091 U.S.)	1,019,460	—
Conditional sales agreements, 12%, due 1972 and 1975	1,261,588	1,469,458
Instalment contracts secured by retention of title to equipment	452,737	328,196
Minority interest loan to subsidiary (repayable out of the subsidiary's future profits)	290,496	—
Sundry	107,079	—
	<hr/> \$10,198,222	<hr/> \$ 9,047,352
Less — Amount due within one year	543,900	492,500
	<hr/> \$ 9,654,322	<hr/> \$ 8,554,852

b) On April 15, 1971, the Company repaid its then outstanding indebtedness under the 9% first mortgage bonds from the proceeds of the \$3,900,000 term loan referred to in (c) (ii) below. Concurrently the maturity date of the 9.98% debenture was advanced from 1974 to January 31, 1973.

c) The term loan agreement with the bank provides for loans aggregating:

- (i) \$4,400,000 U.S. to be drawn down by the Company as required, secured by a debenture (constituting a third mortgage on Skyline — Toronto and a second floating charge on the Company's assets in Ontario) and an assignment of certain other current assets, and
- (ii) \$3,900,000 to be advanced April 15, 1971 at 9%, secured by a debenture (constituting a first mortgage on Skyline — Toronto) and the security listed in (i) above.

These loans require monthly payments of interest only, until maturity on January 31, 1973.

d) Principal payments on long-term debt falling due in each of the next five years are as follows (after giving effect to the refinancing in (b) above):

1971	\$ 543,900
1972	995,500
1973	8,093,500
1974	219,500
1975	34,700
	<hr/> \$9,887,100

6. CAPITAL STOCK

Authorized

3,000,000 common shares without par value

Issued and fully paid

1,120,000 common shares \$2,752,030

7. DIVIDEND RESTRICTION

The debenture securing the bank term loan provides that the Company may not pay dividends in any one year in excess of 40¢ per share without the prior consent of the bank.

8. DEPRECIATION AND AMORTIZATION

	1970	1969
Depreciation of fixed assets	\$ 721,975	\$ 569,692
Amortization of hotel opening and establishment costs	52,925	52,320
	<u>\$ 774,900</u>	<u>\$ 622,012</u>

Depreciation was provided at the following rates :

Paving	—	4% of cost
Building	—	1½% of cost
Leasehold improvements	—	amortized over term of lease (including, in one case, term of renewal options)
Equipment	—	10% of cost

It is the Company's policy to defer hotel opening and establishment costs until a hotel or major addition opens for business. Subsequently these costs are amortized over a ten year period commencing twelve months after each opening. As at December 31, 1970, unamortized hotel opening and establishment costs amounted to \$345,085.

9. INCOME TAXES

a) In 1970, the Company and its subsidiaries adopted the tax allocation basis of accounting for income taxes, and as a result reported net earnings for this year are \$449,257 less than they would have been under the previous taxes payable method. For purposes of comparison, deferred income taxes for 1969 are reflected as a pro-forma adjustment in the statement of operations.

As at December 31, 1970, the cumulative net amount of unrecorded deferred tax credits in respect of 1969 and prior years aggregate \$748,813. This amount includes \$63,985 of unrecorded pre-acquisition deferred tax debits of a subsidiary, after giving effect to a draw-down in 1970 of \$4,120 which has been reflected in the financial statements as a retroactive reduction of goodwill on consolidation.

b) A subsidiary of the Company is entitled to the benefits of a ten-year tax holiday under Jamaican incentive legislation. However, during the year, the commencement date of the tax holiday was changed from 1969 to 1970, resulting in a liability for income taxes for 1969 of \$3,974 (reflected as a prior year's adjustment in the accompanying financial statements) and \$289 in respect of the current year.

c) For income tax purposes, the Company and a subsidiary have tax losses and additional optional tax write offs aggregating approximately \$554,600 available to offset future years' taxable income.

10. STATUTORY INFORMATION

- a) The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company for 1970 was \$127,577 (1969 — \$113,576).
- b) Non-interest bearing loans made during the year to directors and officers of the Company aggregated \$79,292. As of December 31, 1970, debts owing to the Company by directors, officers and shareholders aggregated \$47,821.

11. COMMITMENTS

- a) The Company and its subsidiaries have contractual obligations in respect of long-term leases of hotel real estate (including one lease agreed to be entered into in 1971) having varying expiry dates from 1983 to 2027, some of which contain options to renew for further periods. The rentals incurred in respect of these obligations for the year ended December 31, 1970 aggregated \$1,264,408 (1969 — \$1,242,485).

The minimum rentals to be incurred in 1971 aggregate approximately \$1,411,000 and in each of the years 1972 to 1982 aggregate approximately \$1,936,000.

- b) Projects under development to be completed during 1971 will require additional expenditures by the Company and a subsidiary of approximately \$5,050,000 to be financed from long-term debt arranged for these projects and from internal sources.

12. CONTINGENT LIABILITIES

- a) Until November 17, 1971 the Company is contingently liable with others as joint and several guarantors of the first mortgage debt of Campeau Corporation Limited on the Place de Ville complex in Ottawa, the principal amount of which is about \$21,671,000.

The Company is advised that the annual net operating income from the complex is well in excess of the annual principal and interest payments under the mortgage.

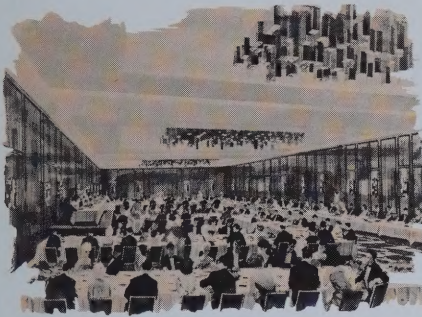
- b) The Liquor License Board of Ontario has taken the position that the license transfer fee provisions of the Liquor Act of Ontario are applicable in respect of the issue in 1968 of 420,000 common shares of the Company, and that transfer fees of approximately \$197,000 are payable. The Company, on the advice of counsel, is disputing this position and intends to appeal the claim.
- c) The Company and a subsidiary are denying all liability for certain claims which management consider frivolous in respect of hotel development costs aggregating approximately \$188,400, none of which, to date, have given rise to any legal action.

13. SUBSEQUENT EVENTS

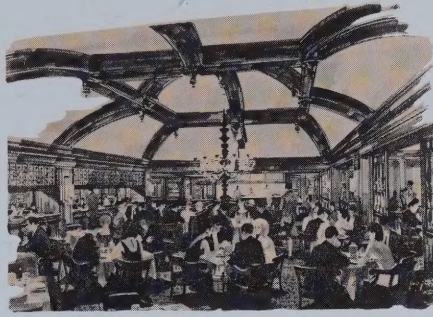
- a) In March 1971, the Company acquired additional land adjacent to its Toronto hotel for \$180,000.
- b) Refer to transaction detailed in note 5 (b).

"LONDON CALLING"

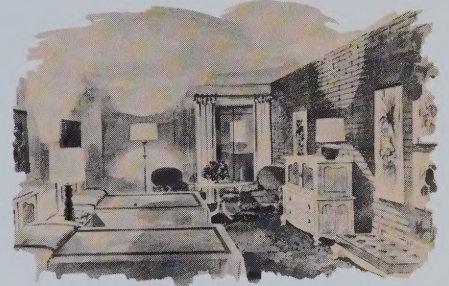
on schedule—to meet the Fall, 1971 opening



Banquet Room



Dining Room

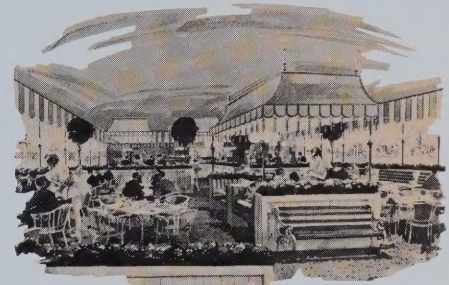


Bedroom

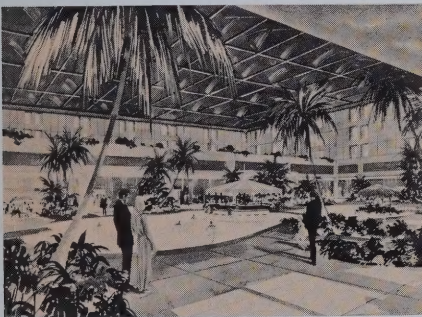


Diamond Lil's

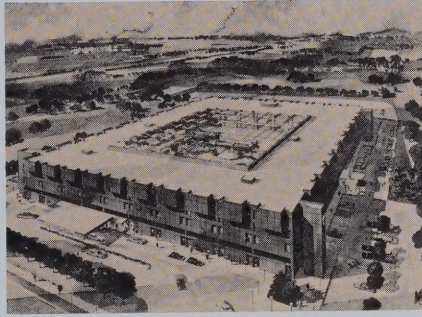
Architects
renderings
of
SKYLINE
LONDON



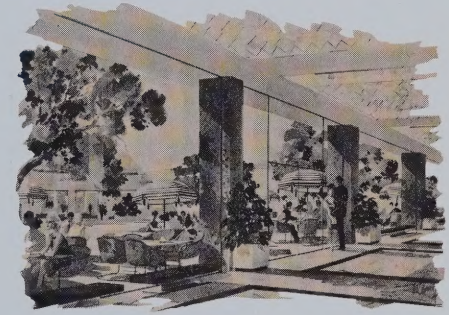
Coffee Shop



Tropical Gardens and Indoor Pool



Aerial View



Foyer



New International Convention Room

"TORONTO
CONTINUES
TO
EXPAND"

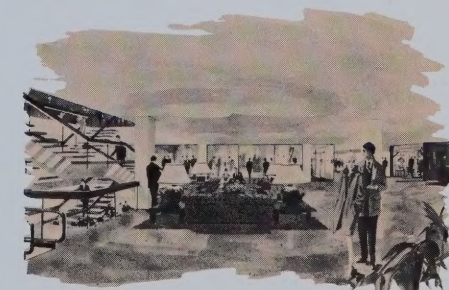
New
South Extension
opening
Fall, 1971



Henry VIII Room



South View



New South Lobby



SKYLINE HOTELS LIMITED

Annual Report 1970

